

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
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September 27, 2006

Mr. Chad Miller, Chief Financial Officer
Chester County Hospital
1 Medical Park Drive, Box 56
Chester, South Carolina 29706

Re: AC# 3-CHE-J2 – Chester County Hospital and Nursing Center

Dear Mr. Miller:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2001 through September 30, 2002. That report was used to set the rate covering the contract period beginning October 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts payable for amounts underpaid as a result of the rate change shown on Exhibit A. You will be notified of settlement terms by that agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

CHESTER COUNTY HOSPITAL AND NURSING CENTER

CHESTER, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2003
AC# 3-CHE-J2**

AGREED-UPON PROCEDURES REPORT

ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 8, 2006

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Chester County Hospital and Nursing Center, for the contract period beginning October 1, 2003, and for the twelve month cost report period ended September 30, 2002, as set forth in the accompanying schedules. The management of Chester County Hospital and Nursing Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.


The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Chester County Hospital and Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summary of Costs and Total Patient Days, Adjustment Report, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Chester County Hospital and Nursing Center dated as of October 1, 2001, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
August 8, 2006

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

CHESTER COUNTY HOSPITAL AND NURSING CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 2003
AC# 3-CHE-J2

	10/01/03- <u>09/30/04</u>
Adjusted Reimbursement Rate	\$123.19
Interim Reimbursement Rate (1)	<u>122.93</u>
Increase in Reimbursement Rate	\$ <u>.26</u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated March 1, 2006.

CHESTER COUNTY HOSPITAL AND NURSING CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2003 Through September 30, 2004
AC# 3-CHE-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 68.80	\$ 66.44	
Dietary		17.99	11.55	
Laundry/Housekeeping/Maintenance		<u>12.11</u>	<u>9.83</u>	
Subtotal	\$ <u>-</u>	98.90	87.82	\$ 87.82
Administration & Medical Records	\$ <u>2.74</u>	<u>10.72</u>	<u>13.46</u>	<u>10.72</u>
Subtotal		109.62	<u>\$101.28</u>	98.54
<u>Costs Not Subject to Standards:</u>				
Utilities		3.43		3.43
Special Services		-		-
Medical Supplies & Oxygen		3.60		3.60
Taxes and Insurance		1.11		1.11
Legal Fees		<u>1.22</u>		<u>1.22</u>
TOTAL		<u>\$118.98</u>		107.90
Inflation Factor (4.70%)				5.07
Cost of Capital				9.15
Cost of Capital Limitation				(.68)
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.74
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(.99)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$123.19</u>

CHESTER COUNTY HOSPITAL AND NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2002
AC# 3-CHE-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,287,669	\$200,144 (1)	\$ -	\$2,487,813
Dietary	642,683	7,798 (1)	-	650,481
Laundry	85,657	-	3,368 (1)	82,289
Housekeeping	151,075	-	26,104 (1)	124,971
Maintenance	260,970	-	30,193 (1)	230,777
Administration & Medical Records	545,715	-	158,224 (1)	387,491
Utilities	103,083	20,951 (1)	-	124,034
Special Services	-	-	-	-
Medical Supplies & Oxygen	126,227	3,881 (1)	-	130,108
Taxes and Insurance	60,481	-	20,418 (1)	40,063
Legal Fees	-	43,940 (1)	-	43,940
Cost of Capital	<u>302,110</u>	<u>70,492 (2)</u>	<u>41,802 (1)</u>	<u>330,800</u>
Subtotal	4,565,670	347,206	280,109	4,632,767

CHESTER COUNTY HOSPITAL AND NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2002
AC# 3-CHE-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Ancillary	-	7,652 (1)	-	7,652
Nonallowable	329,273	-	251,106 (1) 70,492 (2)	7,675
Total Operating Expenses	<u>\$4,894,943</u>	<u>\$354,858</u>	<u>\$601,707</u>	<u>\$4,648,094</u>
Total Patient Days	<u>35,858</u>	<u>303 (3)</u>	<u>-</u>	<u>36,161</u>
Total Beds	<u>100</u>			

CHESTER COUNTY HOSPITAL AND NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-CHE-J2

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	General Services	\$200,144	
	Dietary	7,798	
	Utilities	20,951	
	Medical Supplies	3,881	
	Legal	43,940	
	Ancillary	7,652	
	Other Equity	246,849	
	Laundry		\$ 3,368
	Housekeeping		26,104
	Maintenance		30,193
	Administration & Medical Records		158,224
	Taxes and Insurance		20,418
	Cost of Capital		41,802
	Nonallowable		251,106
	To adjust cost centers to the as-filed Medicare cost report HIM-15-1, Section 2300		
2	Cost of Capital	70,492	
	Nonallowable		70,492
	To adjust capital return State Plan, Attachment 4.19D		
3	<u>Memo Adjustment:</u> To increase patient days by 303 from 35,858 to 36,161 State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	\$ <u>601,707</u>	\$ <u>601,707</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

CHESTER COUNTY HOSPITAL AND NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2002
AC# 3-CHE-J2

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.55013</u>	<u>2.55013</u>	
Deemed Asset Value (Per Bed)	39,828	39,828	
Number of Beds	<u>62</u>	<u>38</u>	
Deemed Asset Value	2,469,336	1,513,464	
Improvements Since 1981	396,496	19,602	
Accumulated Depreciation at 9/30/02	(<u>1,288,450</u>)	(<u>1,061,095</u>)	
Deemed Depreciated Value	1,577,382	471,971	
Market Rate of Return	<u>.0561</u>	<u>.0561</u>	
Total Annual Return	88,491	26,478	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	88,491	26,478	
Depreciation Expense	168,287	60,143	
Amortization Expense	-	-	
Capital Related Income Offsets	(7,811)	(4,788)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	248,967	81,833	\$330,800
Total Patient Days (Actual)	<u>22,420</u>	<u>13,741</u>	<u>36,161</u>
Cost of Capital Per Diem	\$ <u>11.10</u>	\$ <u>5.96</u>	\$ <u>9.15</u>

CHESTER COUNTY HOSPITAL AND NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2002
AC# 3-CHE-J2

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 6.02	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$10.01</u>	<u>\$5.96</u>
Weighted Average Reimbursable Cost of Capital Per Diem*		\$8.47
Weighted Average Cost of Capital Per Diem	<u>9.15</u>	
Cost of Capital Per Diem Limitation		<u>\$(.68)</u>

* $-\left[(10.01 \times 22,420) + 81,833\right] / 36,161$

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